

## **LBNL – PROCUREMENT STANDARD PRACTICES**

**Section: 31 Subcontract Cost Principles**

**Subject: 31.1 Subcontract Cost Principles – General**

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**PURPOSE:** This standard practice (SP) establishes the principles and procedures to be used for pricing a subcontract whenever a cost analysis is performed.

**POLICY:** The Laboratory will comply with FAR Part 31 and DEAR Part 931 when pricing a subcontract using a cost analysis.

**SCOPE:** This SP applies to subcontracts and modifications whenever a cost analysis is performed. See SP 15.6, *Cost or Price Analysis*.

### **DEFINITIONS:**

**Allocable Cost** An allocable cost is a cost that is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or another equitable relationship.

**Allowable Cost** An allowable cost is a cost that meets the test of reasonableness and allocability of FAR Part 31; is in consonance with standards promulgated by the Cost Accounting Standards Board, if applicable, or otherwise conforms to generally accepted accounting principles and practices appropriate to the particular circumstances; is in accordance with the terms of the subcontract; and conforms to any specific limitations or exclusions set forth in FAR Part 31 and DEAR Part 931.

**Commercial Source** A commercial source is a business or other non-Federal activity located in the United States, its territories and possessions, the District of Columbia or the Commonwealth of Puerto Rico, which provides a commercial product or service. Further detail can be found in Office of Management and Budget (OMB) Circular A-76, *Performance of Commercial Activities*.

**Educational Institution** An educational institution is an institution that conducts, as its primary activity, instruction, organized research and/or other sponsored activities including programs and projects financed by Federal and non-Federal agencies and organizations. Further detail can be found in OMB Circular A-21, *Cost Principles for Education Institutions, Revised*.

**Fair and Reasonable Price** A fair and reasonable price is one that does not exceed that which would be incurred by a prudent person in the conduct of competitive business and need not be the lowest available price, but is the one that offers the best value to the Laboratory.

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**Indian Tribe** Indian tribe means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

**Nonprofit Organization** A nonprofit organization is any corporation, trust, association, cooperative, or other organization which:

- Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;
- Is not organized primarily for profit; and
- Uses its net proceeds to maintain, improve, and/or expand its operations.

**Pricing** Pricing is the process of establishing a reasonable amount or amounts to be paid for supplies or services.

### **PROCEDURES:**

**Subcontracts With Commercial Organizations** The cost principles and procedures in FAR Subpart 31.2 and DEAR Subpart 931.2 must be used for pricing negotiated subcontracts and modifications with commercial organizations whenever a cost analysis is performed.

**Subcontracts With Educational Institutions** OMB Circular A-21, *Cost Principles for Educational Institutions, Revised*, must be used for pricing cost-reimbursement subcontracts and modifications for research and development, training, and other work performed by educational institutions.

**Subcontracts With Recognized Indian Tribal Governments** OMB Circular A-87, *Cost Principles for State and Local Governments, Revised*, must be used for pricing cost-reimbursement subcontracts and modifications with state and local governments and federally-recognized Indian tribal governments.

**Subcontracts With Nonprofit Organizations** OMB Circular A-122, *Cost Principles for Nonprofit Organizations, Revised*, must be used for pricing cost-reimbursement subcontracts and modifications with nonprofit organizations.

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NOTE: The referenced circulars may be obtained from the OMB's web site at:

<http://www.whitehouse.gov/OMB/circulars/index.html>

### **RESPONSIBILITIES:**

#### **Procurement Specialist**

The procurement specialist must:

- Comply with the requirements of FAR Subpart 31.2 and DEAR Subpart 931.2 when pricing subcontracts and modifications with commercial organizations;
- Apply OMB Circular A-21 to determine the allowability of costs when pricing subcontracts and modifications with educational institutions;
- Apply OMB Circular A-87 to determine the allowability of costs when pricing subcontracts and modifications with state and local governments and federally-recognized Indian tribal governments; and
- Apply OMB Circular A-122 to determine the allowability of costs when pricing subcontracts and modifications with nonprofit organizations.

### **REFERENCES:**

Prime Contract Clause I.114 – Contractor Purchasing System; Paragraph (e)(4)